

## **Alternative Data to Develop Credit Scores**

**“The U.S. experience towards bridging the information gap and creating an equitable lending environment”**

**Chet Wiermanski**



## Criticisms of Credit Bureau Scoring Systems

### All Financial Obligations are not Evaluated

- Voluntary reporting of lenders
  - Some portfolios omitted
  - Certain loan aspects unreported
- Essential service providers omitted
  - shelter, power utilities, services
- Communication providers omitted

### Income and Assets are Excluded

- Employment record and income not considered
- Checking account performance not evaluated
- Savings and asset ownership not taken into consideration

### Fragmented, Mixed and Stale Credit Files are not Reliable

- Incomplete credit files due to inconsistent/poor borrower identification
- Sporadic and inconsistent use of credit leads to stale information



# Credit Bureau Data/Scoring Terminology

## Alternative Data Dimensions

- Basic source of information
  - Essential service providers
    - shelter, power utilities, services
  - Communication providers
- Foundation for identification and credit risk assessment
  - Capacity
  - Character

## Credit Scoring Dimensions

- Reduce “no-hits”
  - Those without a credit file
- Additional data generates “thicker” credit files
  - More complete credit risk assessment
- Frequent updated information
  - Reduces “un-score able” consumers
  - Up-to date assessment



## Advancements in “Alternative” Reporting

### Significant Increase of “Alternative” Data Reporting

- Since 1980’s TransUnion has gathered and reported “alternative” data
  - Number of essential service providers reporting has increased from a few to several thousand in 2007
    - Only a minority of essential service providers report
  - Tens of millions of essential service accounts are reported monthly to TransUnion
    - Less than 3% of the estimated available accounts are reported
  - Approximately 10% of consumers have a “alternative” account on their TransUnion credit report
    - Compared to less than 3% in 1998
  - 80% of “alternative” data reporters now report positive and negative
    - 54% from energy providers
    - 44% from communication providers
    - 2% from other essential service providers



## “Alternative” Data Concerns/Myths

The Credit Challenged are Further Penalized

Minority and Low Income Borrowers are Unfairly Impacted

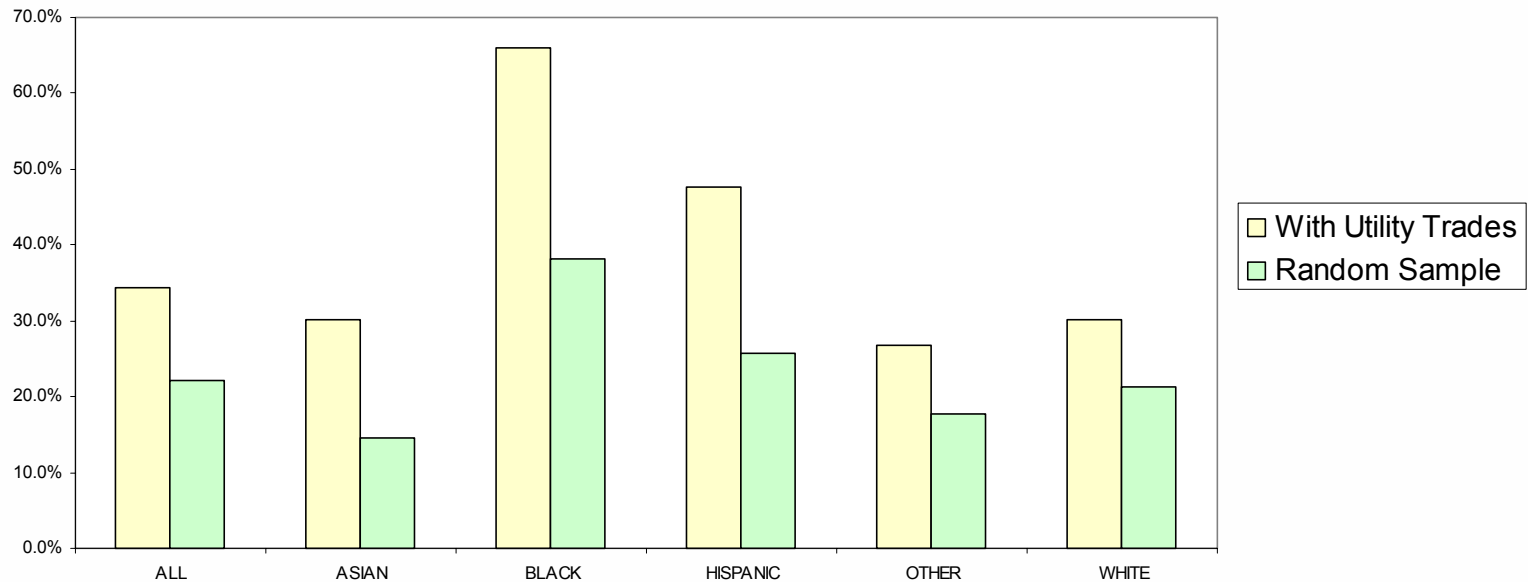
“Alternative” Data only Benefits Thin File and Underserved Markets

# TransUnion Observations

## The Credit Challenged are Further Penalized



### Percent of Consumers with a Collection Item by Race

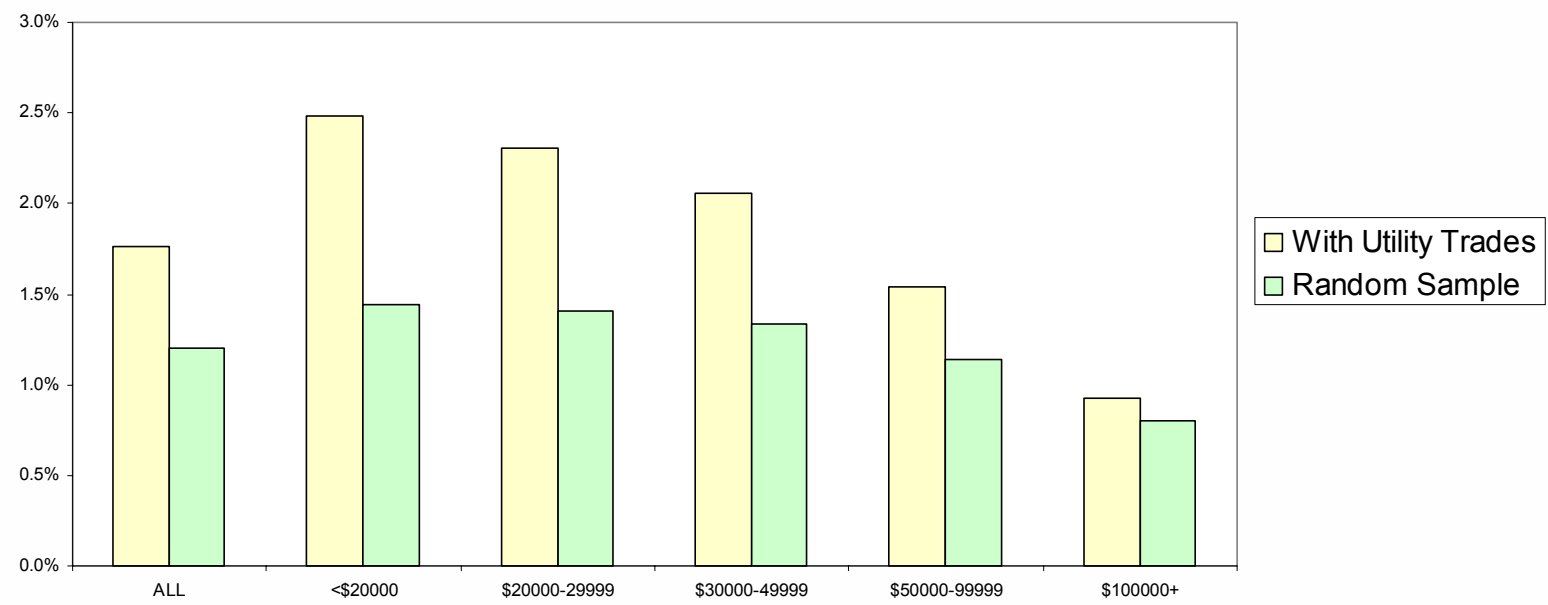




# TransUnion Observations

## The Credit Challenged are Further Penalized

### Percent of Consumers with a Derogatory Public Record by Income

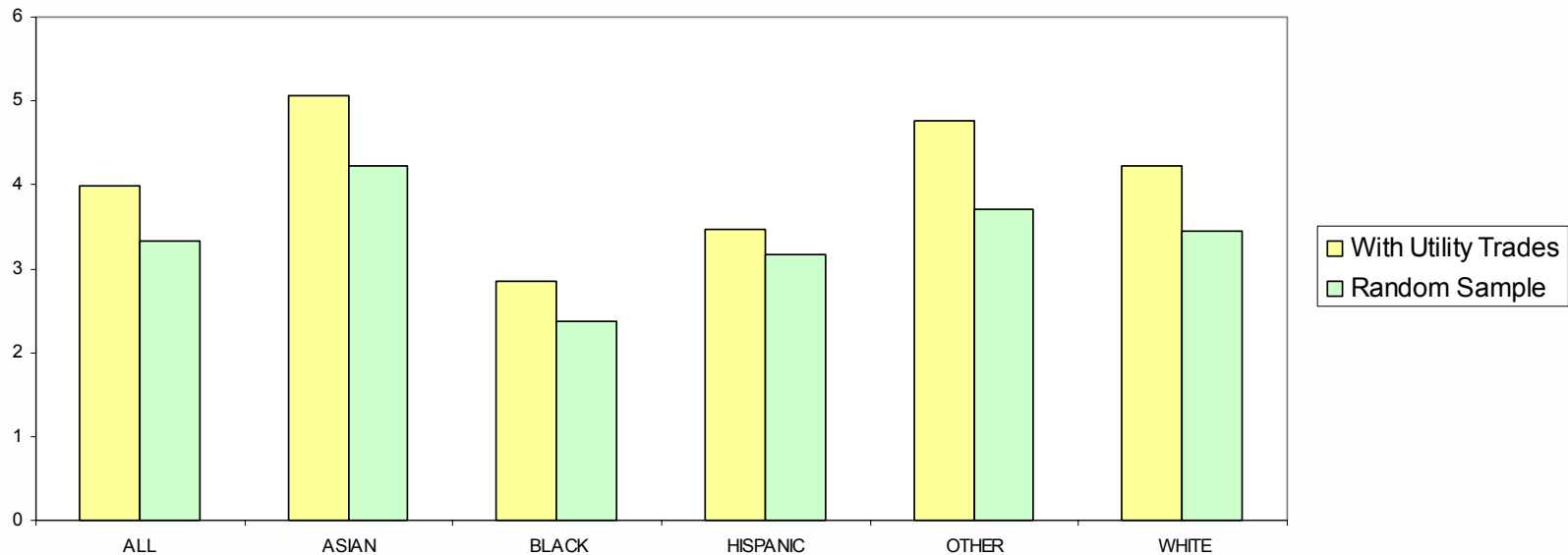


# TransUnion Observations

## The Credit Challenged are Further Penalized



**Average Number of Satisfactory Accounts  
Consumers with a Collection Item by Race**



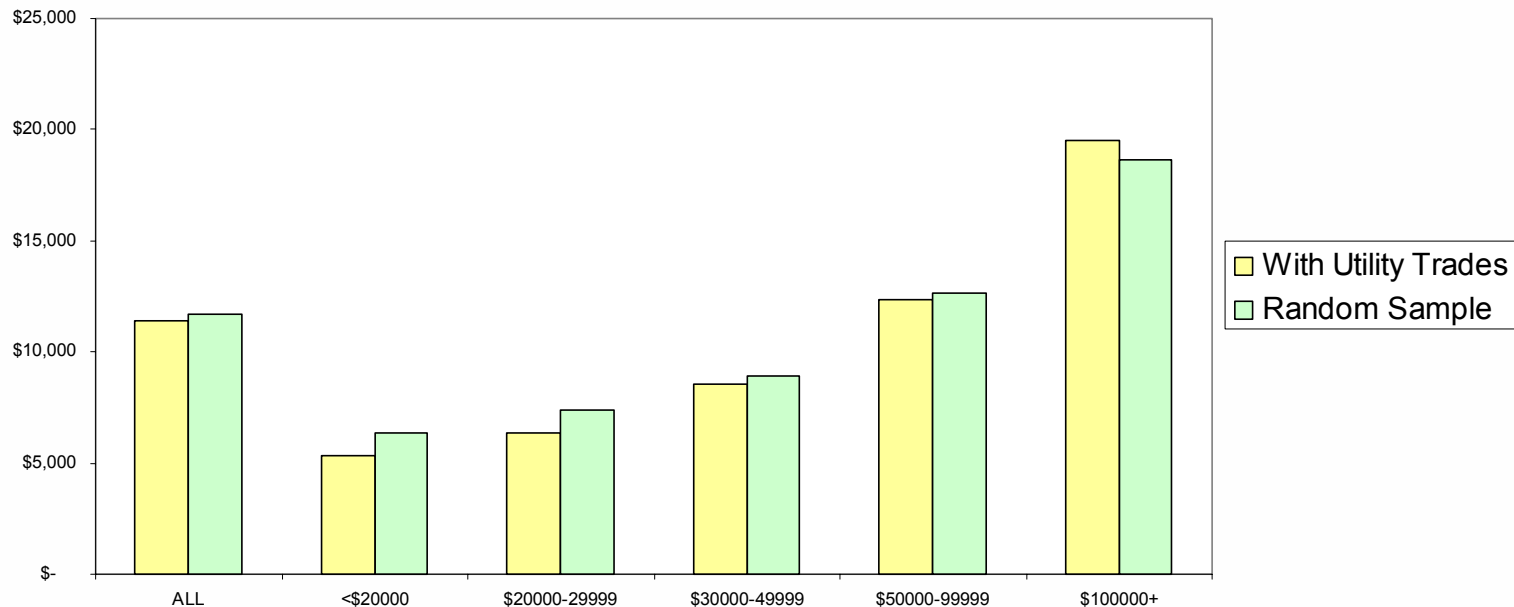


# TransUnion Observations

## The Credit Challenged are Further Penalized



### Average Balances by Income Consumers with a Collection Item by Income





## TransUnion Observations

### Alternative Data Provides Credit Challenged a Second Chance

- Credit bureau based scoring systems perform better with “alternative” data
  - Model results on challenged consumers with alternative data are stronger
    - Better rank ordering
    - increased acceptance rates
- The percentage of scored consumers increases significantly
  - Access to credit is facilitated
    - number of accounts increase
    - credit limits increase
- Consumers seeking additional credit appear to perform better
  - On average more satisfactory accounts
  - Delinquency rates are lower